

# Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Umsobomvu Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Umsobomvu Local Municipality set out on pages XX to XX which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umsobomvu Local Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with Standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (DoRA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

7. As disclosed in note 34 to the financial statements, the corresponding figures for 30 June 2017 has been restated as a result of errors in the financial statements of the municipality at, and for the year ended, 30 June 2018.

### Uncertainty relating to the future outcome of exceptional litigation

8. With reference to note 46 to the financial statements, the municipality is the defendant in a claim lawsuit. The ultimate outcome of the matter could not be determined and no provision for any liability that may result was made in the financial statements.

### Material impairments – receivables from exchange and non – exchange transactions

9. As disclosed in notes 3 and 4 to the financial statements, material impairments of R129 415 609 (2017: R106 640 887) was incurred as a result of poor outstanding debt collections.

### Material losses – water and electricity

10. As disclosed in note 41.8 to the financial statements, material water losses of R4 794 159 (2017: R 8 994 741) was incurred which represents 37,36% (2017: 56,21%) of total water purchased and electricity losses to the amount of R 3 983 360 (2017: R 6 299 445) was incurred which represents 14,68% (2017: 23,71%) of total electricity purchased. Technical losses for electricity were due to inherent resistance of conductors, transformers and other electrical equipment. Non-technical losses for water and electricity were due to tampering of meters, incorrect ratios used on bulk meters, faulty meters and illegal water and electricity connections.

### Other matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

### Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

### Responsibilities of the accounting officer for the financial statements

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with Standards of GRAP and the requirements of the MFMA and DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting officer is responsible for assessing the Umsobomvu Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting



unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

### **Auditor-general's responsibilities for the audit of the financial statements**

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

### **Report on the audit of the annual performance report**

#### **Introduction and scope**

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2018:

<b>Objectives</b>	<b>Pages in the annual performance report</b>
Objective 5: Ongoing maintenance of municipal infrastructure	X - X
Objective 6: Provide appropriate services to all households	X - X
Objective 7: Provide quality and sustainable municipal infrastructure within available resources	X - X

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

#### Objective 5: Ongoing maintenance of municipal infrastructure

##### Various indicators

23. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the following indicators as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance:

Indicator number	Indicator description	Reported achievements as per the annual performance report
TL 11	Spent 90% of the maintenance budget for Sport and Recreation by 30 June 2018 ((Actual expenditure divided by the approved budget)x100)	41%
TL 41	90% of the Road Transport maintenance budget spent by 30 June 2018 {(Actual expenditure on maintenance divided by the total approved maintenance budget)x100}	40,54%
TL 43	90% of the Water Management maintenance budget spent by 30 June 2018 {(Actual expenditure on maintenance divided by the total approved maintenance budget)x100}	61,91%
TL 44	90% of the Waste Water management maintenance budget spent by 30 June 2018 {(Actual expenditure on maintenance divided by the total approved maintenance budget)x100}	40,46%



### Various indicators

24. The reported achievements in the annual performance report did not agree to the supporting evidence provided for the targets listed below. The supporting evidence provided indicated that the achievements of these indicators were as follows:

Indicator number	Indicator description	Reported achievement as per the APR	Audited value
TL 41	90% of the Road Transport maintenance budget spent by 30 June 2018 {(Actual expenditure on maintenance divided by the total approved maintenance budget)x100}	40,54%	36,39 %
TL 42	90% of the electricity maintenance budget spent by 30 June 2018 {(Actual expenditure on maintenance divided by the total approved maintenance budget)x100}	98,70%	46,51%

### Objective 6: Provide appropriate services to all households

#### Various indicators

25. The measures taken to improve performance against the following indicators listed below were included in the annual performance report, but were not adequate in addressing the corrective measure required to improve performance relating to the non-achievement of the targets:

Indicator number	Indicator description	Reported achievement in annual performance report
TL 30	Provide free basic electricity to indigent households as at 30 June 2018	1 684
TL 32	Provide free basic sanitation to indigent households as at 30 June 2018	1 746

## Various indicators

26. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against the following indicators as reported in the annual performance report. This was due to a limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Indicator number	Indicator description	Reported achievement in annual performance report
TL 12	Spend 100% of the library grant by 30 June 2018 (Actual expenditure divided by approved amount) x 100	82%
TL 14	Establish a municipal pound by 30 June 2018	0
TL 15	Develop a new cemetery site for Colesburg by 30 June 2018	0
TL 46	Achieve a 95% average drinking water quality as per SANS 241 criteria for all sampling points	76,39%

### TL 46: Achieve a 95% average drinking water quality as per SANS 241 criteria for all sampling points

27. The planned target for this indicator did not specify the period or deadline for delivery.

## Objective 7: Provide quality and sustainable municipal infrastructure within available resources

### TL 57: 90% of the budget spent by 30 June 2018 for the Noupoot Electrical network (Actual expenditure/ total approved budget)\*100

28. The measures taken to improve performance against the indicator and target were included in the annual performance report, but were not adequate in addressing the corrective measure required to improve performance relating to the non-achievement of the targets.

## Other matters

29. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Achievement of planned targets

30. Refer to the annual performance report on pages XX to XX for information on the achievement of planned targets for the year. This information should be considered in the context of the qualified opinions expressed on the usefulness and reliability of the reported performance information in paragraphs XX to XX of this report.

### Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Objective 5: Ongoing maintenance of municipal infrastructure, Objective 6: Provide appropriate services to all households and Objective 7: Provide quality and sustainable municipal infrastructure within available resources. As management subsequently corrected only some of the misstatements,



I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## Report on the audit of compliance with legislation

### Introduction and scope

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
33. The material findings on compliance with specific matters in key legislations are as follows:

### Annual financial statements and annual reports

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulted in the financial statements receiving an unqualified audit opinion.

### Expenditure management

35. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R6 537 511, as disclosed in note 40.3, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by non – compliance with supply chain management requirements.

### Asset management

36. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

### Strategic planning and performance management

37. The performance management system and related controls were not maintained or were inadequate as it did not describe how the performance monitoring, review and reporting processes should be conducted and managed, as required by municipal planning and performance management reg 7(1).

### Procurement and contract management

38. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by supply chain management regulation (SCM) 17(a) and (c).
39. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a).

40. A contract was awarded through a competitive bidding process that was not adjudicated by the bid adjudication committee. This non-compliance was identified in the procurement processes for the replacement of an existing 3km pipeline in Colesberg.

#### Human resource management

41. Bonuses were paid to the municipal manager and senior managers before the annual report for the applicable performance year was tabled and adopted by council, as required by municipal performance regulation 8(1).

#### Internal control deficiencies

42. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
43. Management did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance and related internal controls.
44. The financial statements and the annual performance report had material misstatements resulting from the audit which were subsequently corrected, which are attributable to the weaknesses in the design and implementation of internal controls and lack of review processes.
45. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored.

Auditor General

Kimberley

30 November 2018



AUDITOR - GENERAL  
SOUTH AFRICA

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## **Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Umsobomvu Local Municipality ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.